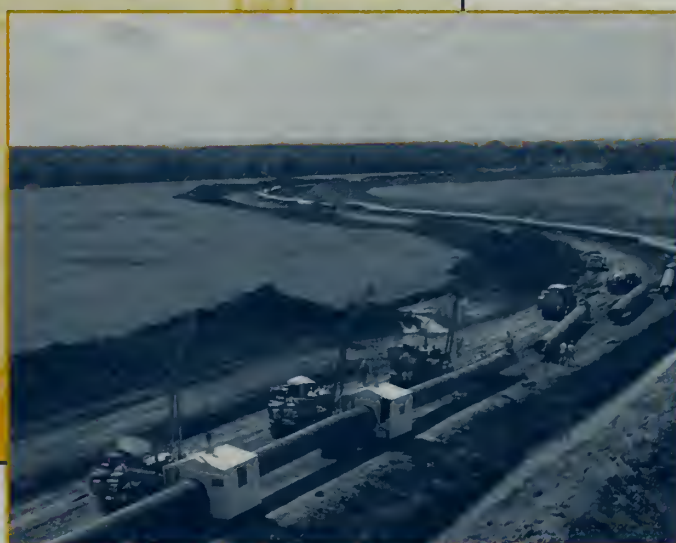


Annual Report



1999
2000

O n t a r i o E n e r g y B o a r d

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The Honourable Hilary M. Weston
Lieutenant Governor of the Province of Ontario

I hereby submit the annual report of the Ontario Energy Board. It reviews the events and activities of the fiscal year ending March 31, 2000.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Wilson".

Jim Wilson
Minister of Energy, Science and Technology

TABLE OF CONTENTS

1. Message from the Chair	2
2. Board Members in 1999-2000	5
3. Overview of the Board's Responsibilities	8
Legislative Mandate	8
Natural Gas	9
Electricity	13
4. Organizational Overview of the Board	16
5. The Year in Review: Operational Highlights of Fiscal 1999-2000	20
6. Financial Report	25
7. Key Board Contacts	28

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Copies of the Annual Report in English and in French, as well as other OEB publications, may be obtained through the Board.

Photos courtesy of Hydro One Networks and TransCanada PipeLines

Printed in Canada on Beckett Expression, Alabaster (cover) and Iceberg (inside).

ISSN 0317-4891



Message from the Chair

Fiscal 1999-2000 was a year of challenge and change for Ontario's natural gas and electricity sectors. It was also an incredibly busy year for the members and staff of the Ontario Energy Board (OEB).

In 1998, the government provided a blueprint for the transition to open competition in Ontario's electricity sector, with the passage of the *Energy Competition Act, 1998* (ECA). The legislation also continued the deregulation process in natural gas, which got under way in 1985.

The ECA is intended to usher in a new era in electricity in Ontario, and many of the Board's activities in fiscal 1999-2000 involved developing an effective regulatory framework for the new, competitive electricity market.

During 1999-2000, for example, the Board issued transitional licences and rate orders to electricity distribution utilities. Transitional licences were issued to Ontario Hydro Networks Company and the Independent Electricity Market Operator. Transitional licences were also issued to the province's existing electricity

generators, including Ontario Power Generation Inc., and the process of licensing electricity retailers was begun.

The Board finalized the Rate Handbook and the Accounting Procedures Handbook for electricity distribution utilities during the past fiscal year, and finalized several codes, including the Retail Settlement Code, the Standard Supply Service Code, the Affiliate Relationships Code and the Electricity Retailer Code of Conduct.

In addition, the Board prepared guidelines for the filing of applications for mergers, acquisitions, amalgamations and divestitures of electricity transmission and distribution systems. Substantial progress was also made on developing the Distribution and Transmission System Codes.

In the natural gas area, the Board held a number of hearings to deal with rates, franchises, facilities approvals and storage facilities. Several natural gas marketers were also licensed during the year, and significant progress was made on the development of a Distributor Access Rule for gas utilities. In addition, the Board finalized the Affiliate Relationships Code for gas utilities.

Fiscal 1999-2000 marked the Board's first-ever approval of a Performance Based Rate (PBR) application. The approval was granted for a targeted Operations and Maintenance PBR plan by Enbridge Consumers Gas. The Board also began a detailed review of its Model Franchise Agreement for natural gas, during the year, partly in anticipation of potential impacts from municipal government restructuring.

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The Board's consumer protection role remained an important focus over the past fiscal year, and staff participated actively in the development of new consumer education materials on electricity restructuring. Frequent updates were also made to the Board's Web site, to ensure that the public and stakeholders had access to up-to-date information on developments in gas and electricity, as well as details on the Board's activities.

Recognizing that the OEB's Web site is an increasingly important source of information to energy users and stakeholders, the Board decided in 1999-2000 to redesign the site. Work proceeded on the project throughout the year, with the official launch of the enhanced site scheduled to take place early in fiscal 2000-2001.

In March 2000, the OEB launched its new Customer Service Centre, to provide consumers with general information, and answer specific questions on gas and electricity. The Board also established a complaints handling mechanism during fiscal 1999-2000, to deal with consumer complaints about energy marketing.

The Board's Year 2000 (Y2K) readiness program was a top priority of the organization during the year. The scope of the program included all necessary remediation of computer-dependent systems, contingency planning and close cooperation with external suppliers, building management and other stakeholders. The analysis, remediation, testing and Y2K readiness certification of all operating systems was successfully completed by year-end 1999 and the Board experienced no Y2K related problems.

My Board colleagues and I are fortunate to be at the forefront of a major transformation of Ontario's energy sector. During the year, however, the many challenges of the changing

regulatory environment required an uncommon amount of hard work by Board members and staff as well as by our many stakeholders in the energy industry. Fortunately, we all can look back on a year of solid achievement, and take some encouragement in the knowledge that our hard work was worthwhile.

A great deal still remains to be done, however, as we move closer to the opening of Ontario's competitive electricity market. Early in the coming fiscal year, for example, the Board will need to do more work in the area of rates, as more than 250 electricity utilities across Ontario file their first-ever unbundled rate applications with the OEB for approval.

Before those rate decisions can be made, the Board must determine the initial electricity transmission tariff. In addition, the Board must finalize all outstanding codes. Ontario's electricity industry must then implement the new requirements before the new market opens. During the coming year, the Board will also be dealing with the province's natural gas utilities on applications that involve PBR plans and the unbundling of services.

**Board members
and staff
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and provided
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developments to
a broad range
of audiences.**

The tight timetable for Ontario's move to electricity competition required the Board's staff to work closely with major stakeholders in the province's energy sector. In this regard, I cannot say enough about the tremendous contribution by the Board's members and staff in ensuring a smooth transition to electricity competition in Ontario. Their unflagging enthusiasm, total commitment and unfailing willingness to assume new roles and take on new challenges deeply impressed and frequently inspired me throughout the year.

In addition to carrying a heavier-than-usual workload over the past 12 months, the Board's members and staff also made a significant contribution to the stakeholders' understanding of electricity and gas issues. In workshops, presentations and speaking engagements throughout the province, members and staff gave generously of their time and provided information and training on regulatory developments to a broad range of audiences.

On behalf of my Board colleagues, I would also like to express our collective appreciation to the many stakeholders and partners who made such a valuable contribution to our work over the past fiscal year. Their experience and expertise – provided in working groups, task forces and other forums – was a vital resource in the Board's development of the various licences, codes, guidelines, handbooks, policies and procedures needed in the new, competitive environment.

With the government's goal of a competitive electricity market, the Ontario Energy Board will face a number of new challenges in the coming fiscal year. With the continuing enthusiasm of the Board's members and staff, and the continued cooperation and assistance of our valued partners and stakeholders, I am confident that we will achieve our objectives.

Floyd Laughren
Chair

BOARD MEMBERS IN 1999-2000

Floyd Laughren, Chair

Floyd Laughren was appointed Chair of the Ontario Energy Board in March 1998, after a 27-year career in provincial politics as the MPP for Nickel Belt. At the time of his retirement, Mr. Laughren, who was first elected in 1971, was the longest-serving member of the Legislative Assembly of Ontario. His many achievements included serving as Deputy Premier and Minister of Finance in the government of Premier Bob Rae, with responsibility for the former ministries of Treasury and Economics, Revenue and Financial Institutions. Mr. Laughren also chaired the Policy and Priorities Board of Cabinet, and the Treasury Board, and sat on the Cabinet Subcommittee on Industrial Assistance.

Before his election in 1971, Mr. Laughren taught economics at Cambrian College of Applied Arts and Technology in Sudbury, and worked in the retail sector in western Canada. He holds a diploma in business from Ryerson Polytechnic University, and a Bachelor of Arts in economics from York University.

George Dominy, Vice-Chair

George Dominy was appointed Vice-Chair of the OEB in June 1993. Mr. Dominy has extensive experience in the energy field, in both the private and public sectors. Before joining the Board, he served as Director of the Electricity, Oil and Gas Branch at the former Ministry of Energy. Mr. Dominy holds a Master's degree in mathematics from Cambridge University.

FULL-TIME BOARD MEMBERS

Paul Vlahos was appointed as a full-time member of the Board in October 1994. Before his appointment, Mr. Vlahos held positions in the natural gas industry and staff positions at the OEB. He also served as General Manager at the Ontario Telephone Service Commission. Mr. Vlahos taught economics at the University of New Brunswick, and holds a Master's degree in economics.

Dr. Roger M. R. Higgin was appointed as a full-time member of the Board in September 1996. Before joining the Board, he was General Manager and Chief Operating Officer of Unisearch Associates, Inc. Dr. Higgin held a number of senior positions in the former Ministry of Energy, including that of Assistant Deputy Minister – Programs and Technology Division, and previously served as a member of the Board from 1988 to 1991. He holds a Ph.D. in chemical engineering as well as a Master of Business Administration.

Sheila Halladay, a lawyer, was first appointed to the Board as a part-time member on December 2, 1998. Ms. Halladay was appointed as a full-time member of the Board on April 21, 1999. Before her appointment, she was a corporate/commercial partner in a major law firm. Ms. Halladay holds B.A., B.Sc., and LL.B. degrees from the University of Windsor, and an LL.M. degree from Columbia University.

Dr. Malcolm Jackson was appointed to the Board in March 2000. For the past decade, he managed a consulting practice in economics and finance that specialized in energy and public utility matters. He has also served as director of several privately held corporations. He previously served as a member of the Board from 1986 to 1989, after having held senior positions in oil and gas production and oil pipeline companies. Dr. Jackson holds degrees in science (M.Sc. and Ph.D.) and business (M.B.A.).

PART-TIME BOARD MEMBERS

Judith Simon, an environmental scientist, was appointed as a part-time member of the Board in May 1992. She previously held managerial positions with the Ministry of Industry, Trade and Technology and the Ministry of the Environment, and was also an energy planner with the former Ministry of Energy. Ms. Simon is currently a consultant who specializes in environmental assessment and strategic planning.

F. Anne Drozd was appointed a part-time Board Member in April 1993. She is a Fellow of the Institute of Chartered Accountants of Ontario, and President of ACHOS, a management consulting firm. Ms. Drozd has practiced as a Certified Management Consultant since 1982, and has extensive regulatory experience.

Dr. Sally F. Zerker was appointed as a part-time member of the Board in June 1997. She holds a Ph.D. in economics from the University of Toronto, and has been a professor at York University since 1970. Dr. Zerker has lectured and published numerous books and articles on Canadian economic history and political economy, as well as on the international oil industry.

Arthur Birchenough, P.Eng., was appointed as a part-time member of the Board on February 3, 1999. He is a professional engineer with 35 years' experience in the engineering/construction industry, having held senior executive positions at AGRA Monenco and Canatom Inc. Mr. Birchenough currently serves as a senior advisor at Sheridan College.

Cathy Spoel was appointed to the Board as a part-time member on October 13, 1999. She is a lawyer with 15 years experience in administrative law, with a focus on land use planning, environmental, municipal and energy law. Ms. Spoel has an honours degree in Mathematics and a Master of Law degree in Alternative Dispute Resolution. She was called to the Ontario Bar in 1983.

Brock Smith joined the Board as a part-time member in October 1999. Prior to his retirement from the Ontario Civil Service in 1993, he served as Deputy Minister in a number of ministries, including Treasury, Economics, Environment and Northern Development and Mines. He is currently a public affairs consultant. Mr. Smith holds a Master's degree in Political Science and a Bachelor of Commerce degree.

DEPARTING BOARD MEMBER

H. Gail Morrison, a lawyer, was first appointed as a full-time member of the Board in 1996. Before her appointment, Ms. Morrison had worked in the Ontario public service since 1982, holding positions with the Ombudsman's Office and the Environmental Assessment Board. The Board's chair, members and staff would like to take this opportunity to thank Ms. Morrison for her outstanding service and dedication during her years at the OEB.

OVERVIEW OF THE BOARD'S RESPONSIBILITIES

LEGISLATIVE MANDATE

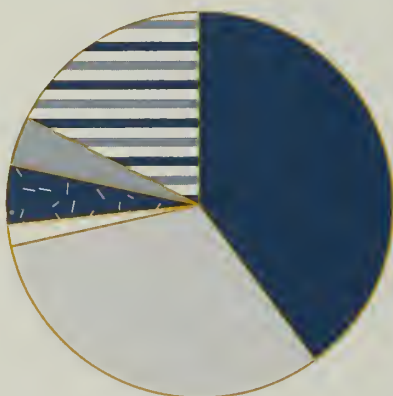
As a regulatory agency of the Ontario government, the OEB is an independent, quasi-judicial tribunal created by the *Ontario Energy Board Act* (the *OEB Act*). Although the Board reports to the provincial legislature through the Minister of Energy, Science and Technology, it is independent of the ministry, and all other provincial agencies, in discharging its regulatory functions and responsibilities.

In 1998, the passage of the *Energy Competition Act, 1998* (the *ECA*) gave the Board increased powers and a broader mandate, including responsibility for regulating the monopoly transmission and distribution systems for electricity.

The Board's regulatory role and responsibilities are described in several provincial statutes. The legislation includes the *Energy Competition Act, 1998*, the *Municipal Franchises Act*, the *Oil, Gas and Salt Resources Act*, the *Public Utilities Act* and the *Toronto District Heating Corporation Act, 1998*. The OEB's processes are generally governed by the *Statutory Powers Procedure Act*. The Board has also developed

Ontario's Energy Demand 1998

Demand by Type of Energy in Petajoules



Oil	1096.8	40.1%
Natural Gas	875.2	32.0%
Natural Gas Liquids	29.8	1.0%
Coal	139.1	5.1%
Other	114.3	4.2%
Electricity	482.2	17.6%

Ontario's Energy Demand 1998

Demand by Energy Sector in Petajoules



Residential	546.7	19.8%
Commercial	391.9	14.2%
Industrial	815.2	29.6%
Transportation	740.2	26.9%
Petrochemical	180.3	6.5%
Other	82.5	3.0%

its own Rules of Practice and Procedure, which detail the formal procedures used in the Board's operations.

The *OEB Act* describes the Board's mandate in the natural gas sector, which includes the following objectives:

- facilitating competition in the sale of gas to users;
- maintaining just and reasonable rates for the transmission, distribution and storage of gas;
- facilitating the rational expansion of transmission and distribution systems;
- facilitating the rational development and safe operation of gas storage facilities; and
- facilitating opportunities for energy efficiency, consistent with Ontario government policies.

The *OEB Act* also sets out the Board's responsibilities in relation to electricity. Those responsibilities include:

- facilitating competition in the generation and sale of electricity, and a smooth transition to competition;
- providing electricity generators, retailers and consumers with non-discriminatory access to Ontario's transmission and distribution facilities;
- protecting the interests of consumers with respect to prices, as well as the reliability and quality of electricity service;
- promoting economic efficiency in the generation, transmission and distribution of a financially viable electric industry; and
- facilitating energy efficiency and the use of cleaner, more environmentally benign energy services, in a manner that is consistent with the policies of the Government of Ontario.

NATURAL GAS

Licensing Natural Gas Marketers

Under the ECA, the Board retained its former functions in the natural gas area, and assumed additional responsibilities for licensing gas marketers and making rules. As of March 1, 1999, for example, any individual or company that sells natural gas to residential and small commercial consumers in Ontario must apply for and receive a licence from the OEB.

As one of the conditions of being licensed, each marketer must comply with the Gas Marketer Code of Conduct. During the 1999-2000 fiscal year, the Board granted licences to a total of 20 natural gas marketers. By March 31, 2000, there were 21 gas marketers who held licences to operate in Ontario.

Most natural gas marketers operate as independent businesses, and sell gas directly to their customers. Ontario consumers have the option of contracting for their gas with a marketer, or purchasing gas from one of the province's three regulated gas distributors: Enbridge Consumers Gas, Union Gas Limited or Natural Resource Gas Limited. The

As one of the conditions of being licensed, each marketer must comply with the Gas Marketer Code of Conduct.

Ontario's Energy Demand 1998

Natural Gas Demand by Energy Sector in Petajoules



	Residential	315.5	36.0%
	Commercial	202.9	23.2%
	Industrial	339.2	38.8%
	Transportation	1.5	0.2%
	Petrochemical	16.2	1.8%

three distribution companies serve customers of their own directly, and also deliver gas to customers who purchase gas from marketers.

In addition to its new role in licensing natural gas marketers, the OEB has the ability to make rules or conditions of access to transmission, distribution and storage. The Board continues to have responsibility for other areas of the gas business. These responsibilities include approving natural gas rates, approving transmission pipeline construction, and approving the terms and conditions of municipal franchise

agreements. The Board is also responsible for issuing Certificates of Public Convenience and Necessity when necessary, for approving the development of gas storage facilities, and for approving changes in the ownership of natural gas utilities.

Approving Natural Gas Rates

Under Ontario law, regulated natural gas utilities are required to submit their proposed rates for storing, transmitting and distributing gas for the Board's review and approval. The OEB is responsible for establishing rates for each utility, normally after it holds a public hearing.

In Ontario, natural gas rates cover the commodity cost of the gas, which is passed through to the customer without a price markup, as well as the costs of transporting the gas to Ontario, and the distribution and operating costs of the gas utility. Where consumers purchase gas directly from suppliers, the OEB regulates the rates that utilities are allowed to charge for transporting, storing and distributing the gas, and also establishes a buy/sell reference price.

In fulfilling its rate-making responsibility, the Board attempts to strike a balance between the prices paid by customers and the rate of return that utility shareholders are permitted to earn on their investment. Ultimately, the Board's goal is to set natural gas rates that are just and reasonable for both consumers and shareholders.

During the 1999-2000 fiscal year, the Board completed rate hearings for both Enbridge Consumers Gas and Natural Resource Gas Limited.

Ultimately, the Board's goal is to set natural gas rates that are just and reasonable.

Approving the Construction of Natural Gas Pipelines

Any utility that seeks to construct a natural gas transmission line in Ontario must first obtain the OEB's approval. Gas pipelines generally involve the underground installation of large-diameter, high-pressure pipes, and therefore usually involve substantial capital costs and environmental implications. The Board's role is to assess whether or not the proposed pipeline construction is in the public interest, by thoroughly considering several factors, including need, safety, economic impact, feasibility, community benefits, security of supply and environmental impact.

During fiscal 1999-2000, the Board dealt with several applications to expand pipelines that would provide natural gas service to new areas of the province. These projects included proposed new services in the Township of South Bruce, the Town of Minto and the Township of Colborne by Union Gas Limited in Southwestern Ontario.

The Board also approved a major reinforcement of an existing pipeline on Union Gas Limited's Owen Sound line, to serve that system's anticipated growth. In Northern Ontario, the Board approved pipeline expansion projects for the unorganized Township of Aurora in the District of Cochrane, and a new service to the Parry Sound area.

The OEB's Environmental Guidelines, which were issued in 1995, describe the Board's expectations for the location, construction and operation of hydrocarbon pipelines in Ontario. The guidelines emphasize planning considerations in urban areas, and clarify the filing requirements for the environmental reports that all applicants must submit. During fiscal 1999-2000, the Board undertook a review of

the existing guidelines, and revised guidelines are expected to be issued in the coming fiscal year.

Chaired by an OEB staff member, the Ontario Pipeline Co-ordination Committee (OPCC) represents several provincial government ministries which jointly consider the environmental and safety aspects of pipeline construction. Regional agencies also take part in such discussions as necessary. In conjunction with a pipeline approval, the OEB may also grant authority to expropriate land and authorize the pipeline to cross highways, utility lines and ditches.

Approving Municipal Gas Franchise Agreements

Ontario's municipalities have the authority to grant to a gas utility the right to provide natural gas services within the municipality, and to use road allowances or utility easements to build gas-related infrastructure. However, the specific terms and conditions of each franchise agreement require the Board's approval.

Since 1987, a model agreement developed by the Board has formed the basis for all municipal franchise agreements. But several factors – including

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Natural gas may be injected into an underground geological formation only in an area that has been designated for gas storage.

recent developments in the municipal government sector – prompted the Board to undertake a review of the model agreement during fiscal 1999-2000.

In September 1999, the Board issued a request to stakeholders for comments on the model franchise agreement, and a special OEB panel subsequently heard a number of presentations. By March 31, 2000, the panel's deliberations were nearing completion, and a final decision on the model franchise agreement was expected by summer of the next fiscal year.

In the review of the model franchise agreement, Board staff facilitated discussions between the gas utilities and municipalities on the terms and conditions of a new model agreement. The Board also renewed or granted interim orders for a number of municipal franchise agreements during the year.

Issuing Certificates of Public Convenience and Necessity

The Board issues Certificates of Public Convenience and Necessity for the construction of all works that supply natural gas in Ontario. However, the OEB only grants a certificate if public convenience and necessity support the extension of service.

Approving Natural Gas Storage Facilities

Natural gas may be injected into an underground geological formation only in an area that has been designated for gas storage by the Lieutenant Governor in Council (LGIC). The Board is responsible for making recommendations to the LGIC on areas that are suitable for designation as storage areas.

If the LGIC approves an area's designation, the Board may then authorize its use for gas storage. The OEB also plays a role in determining the compensation that should be paid to the owners of the land under which gas storage areas are located, if the parties cannot reach a compensation agreement by themselves. Applications for drilling permits for gas wells in designated gas storage areas are made to the Minister of Natural Resources, and referred to the OEB for a report.

In fiscal 1999-2000, the Board reviewed two natural gas storage projects. In the first project, Enbridge Consumers Gas applied for the designation and development of the Ladysmith Pool. In the other, Union Gas Limited applied for development of the Century Pools Phase I project, which included the development of the Bentpath East and Booth Creek projects.

Approving Ownership Changes in Natural Gas Utilities

In Ontario, natural gas utilities must obtain the OEB's permission before selling their system or amalgamating with another company. Board approval is also required before any person can acquire more than 20 per cent of any class of a gas utility's shares. Applications for Board approval of a change in a utility's ownership are generally dealt with in a public hearing.

ELECTRICITY





Licensing Participants in the Electricity Market

The OEB is responsible for licensing all participants in Ontario's electricity market, including generators, transmitters, distributors, wholesalers, retailers and the Independent Electricity Market Operator (IMO).

Ontario's Energy Demand 1998

Electricity Demand by
Energy Sector in Petajoules



	Residential	154.0	31.9%
	Commercial	163.8	34.0%
	Industrial	163.2	33.8%
	Transportation	1.3	0.3%

As part of the conditions of its licence, each licence holder must agree to adhere to certain codes; for example, the Affiliate Relationships Code for Electricity Distributors and Transmitters sets out the standards and conditions for the interaction between the regulated companies and their unregulated affiliates. In addition, every retail licensee must adhere to the requirements of the Electricity Retailer Code of Conduct.

During the 1999-2000 fiscal year, the Board issued, with the Minister's approval, transitional licences for 84 electricity generators, 263 electricity distributors, two electricity transmitters and the IMO. The Director of Licensing also granted licences to seven electricity retailers.

Approving Electricity Rates

The OEB is responsible for approving the rates charged for distributing and transmitting electricity in Ontario. Any individual or organization wishing to own or operate an electricity transmission or distribution system must first obtain a licence from the OEB, and submit proposed transmission and distribution rates for the Board's review and approval. After the Board

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**The Board issued
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250 municipal
electric utilities
during the year.**

has completed its review of the utility's proposal, the OEB issues an order setting out the rates that have been approved.

During the 1999-2000 fiscal year, the Board completed a transmission rate hearing for Ontario Hydro Networks Company. However, a final decision was still pending on March 31, 2000. The Board also issued interim rate orders to more than 250 municipal electric utilities during the year, and processed a number of applications for changes to interim rates.

Approving Acquisitions, Mergers, Sales and Leases

The Board is responsible for approving a number of business arrangements within Ontario's electricity industry. These arrangements include:

- amalgamations among electricity distributors;
- acquisitions of the shares of electricity distribution and transmission utilities;
- disposal of electricity distribution and transmission assets;
- acquisition of electricity generating facilities by a transmitter or distributor;

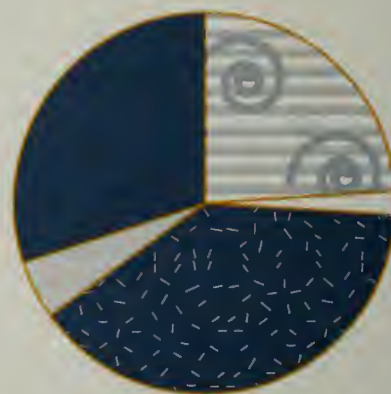
- acquisition of an electricity transmitter or distributor by an electricity generator; and
- mergers by electricity transmitters and distributors.

Sales and leases that involve all or part of an electricity transmission or distribution system also require the Board's approval.

During 1999-2000, the Board developed and issued guidelines that included the filing requirements for consideration of Mergers, Acquisition, Amalgamations and Divestitures (MAADs) applications from companies in the electricity sector. After consulting stakeholders, the Board issued its final guidelines in January 2000. A streamlined process for the applications was developed and by March 31, 2000, the Board had received a total of three applications.

Ontario's Electricity Sources

Electricity Sources Used to Generate Electricity Consumed in Ontario in 1998



	Water Power	24%
	Alternative	2%
	Nuclear Energy	39%
	Natural Gas	5%
	Coal or Oil	30%

Supervising the Independent Electricity Market Operator (IMO)

The Board has regulatory jurisdiction over the IMO, and is responsible for approving both its budget and fees. The Board also has a role as an appellant body in disputes about the rules of the electricity market. During the 1999-2000 fiscal year, the Board began a process to review the IMO's budget and set its fees for the year 2000.

Monitoring the Electricity Market

The Board is responsible for monitoring Ontario's electricity market, and for reporting on its fairness, efficiency, transparency and competitiveness to the Minister of Energy, Science and Technology.

The Board is also responsible for reviewing Ontario Power Generation Inc.'s progress towards achieving the milestones outlined in its Market Power Mitigation Agreement with the government. The Board's monitoring activities involve watching for potential or actual abuses of market power, and ensuring that all participants in the electricity market comply with the terms and conditions of their licences, including any associated codes and rules.

During the year, the Board's staff continued consultations with the IMO and the Federal Competition Bureau on developing guidelines for the respective roles and processes for reviewing market surveillance issues.

In addition, the Board's staff started work on developing economic and environmental guidelines for electricity distribution and transmission system expansion.

**The Board's
monitoring activities
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or actual abuses
of market power.**

Organizational Overview of the Board

The Board's

staff represent a

highly-skilled,

multi-disciplinary

team that includes

economists, financial

analysts, accountants,

lawyers, administrators,

policy development

experts and

communications

specialists.

During 1999-2000, the Board had 12 members, including the Chair and Vice-Chair. There are six full-time members, and six part-time members. The Board's members are a multi-disciplinary group, with expertise in several key areas, including law, engineering, accounting, economics and energy.

Board members are appointed by the Lieutenant Governor in Council for terms of between one and three years. At most major hearings, Board members sit in panels of three. However, the *OEB Act* provides that only two Board members are needed to make up a quorum, and in special circumstances, the Chair or Vice-Chair may authorize a single Board member to hear and determine a matter.

During fiscal 1999-2000, the OEB had a total staff complement of 78 positions. Like the Board's members, the Board's staff represent a highly-skilled, multi-disciplinary team that includes economists, financial analysts, accountants, lawyers, administrators, policy development experts and communications specialists.

In January 2000, the Board created a new position – the General Manager. The General Manager acts as the OEB's chief operating officer, leading and managing all aspects of the Board's operations. The General Manager is also responsible for ensuring the timely completion of all activities related to the opening of the electricity market, including the development of licences, codes, guidelines and handbooks.

The Licensing and Applications Branch is responsible for advising the Board on, and processing applications from, utilities for licences and rates, and for facilities approvals. The branch also develops licences and codes for participants in the energy market.

The Director of Licensing has specific legislative responsibilities to issue licences to natural gas marketers and all participants in the provincial electricity market. The Director's decisions can be appealed to the Board. The Licensing and Applications Branch is made up of three sections: Energy Licensing, Rates/Financial Services and Facilities.

The Energy Licensing section advises the Director of Licensing and the Board on licence applications and the administration of the licensing process. The section also provides advice to the Board on the development and administration of code and rule requirements for participants in the energy market.

The Rates/Financial Services section advises the Board on gas and electricity rate applications and other finance-related applications. The section is also responsible for providing advice on the implementation of codes and rules, as well as the Board's Rate Handbook for electricity distributors.

The Facilities section advises the Board on gas and electricity facility applications, as well as gas franchise applications. The section also provides policy development assistance relating to the expansion of Ontario's gas and electricity systems, including pipelines, gas storage facilities, and electricity distribution and transmission lines.

The Regulatory Affairs Branch provides a wide range of professional, technical and advisory services to the Board. The branch has four sections: Strategic Services, Audit/Compliance/Energy Returns Officer, Market Surveillance and Appeals.

The Strategic Services section develops regulatory policy options, conducts research on current and emerging issues, and undertakes strategic regulatory planning. The section's staff maintain contact with the utilities, stakeholder groups and other regulatory and energy bodies in Canada and the United States.

The Audit/Compliance/Energy Returns Officer section conducts audits and performs compliance monitoring activities to ensure that regulated gas and electricity monopoly utilities comply with Board decisions, orders, and other regulatory instruments. The section also monitors various aspects of the gas and electric utilities' financial operating performance. Section staff also provide the Board with accounting, financial and technical advice.

The Market Surveillance section assists the Board in monitoring Ontario's energy markets and detecting potential or actual abuses of market power, in part by reviewing IMO reports on market power and market abuse. The section advises the Board on market operation and market mitigation measures, and makes recommendations on Board decisions that affect market rules.

The Appeals section co-ordinates the processing of appeals and other matters that are referred to the Board in relation to licensing and market rules. The section also assists the Board in dealing with applications and reviews before the courts on a wide variety of topics – including rates and jurisdictional issues.

The Corporate Services Branch provides a wide range of support services to the Board, and is made up of four sections: Business Services and Planning, Information Technology and Operations, Legal Services and the Board Secretary's Office.

The Business Services and Planning section provides financial, human resources, administration and planning co-ordination services.

The Market

Surveillance section

assists the Board

in monitoring

Ontario's energy

markets and detecting

potential or

actual abuses

of market power.

The Legal Services

section provides

legal advice to

the Board's

members and

staff on all

aspects of

the OEB's

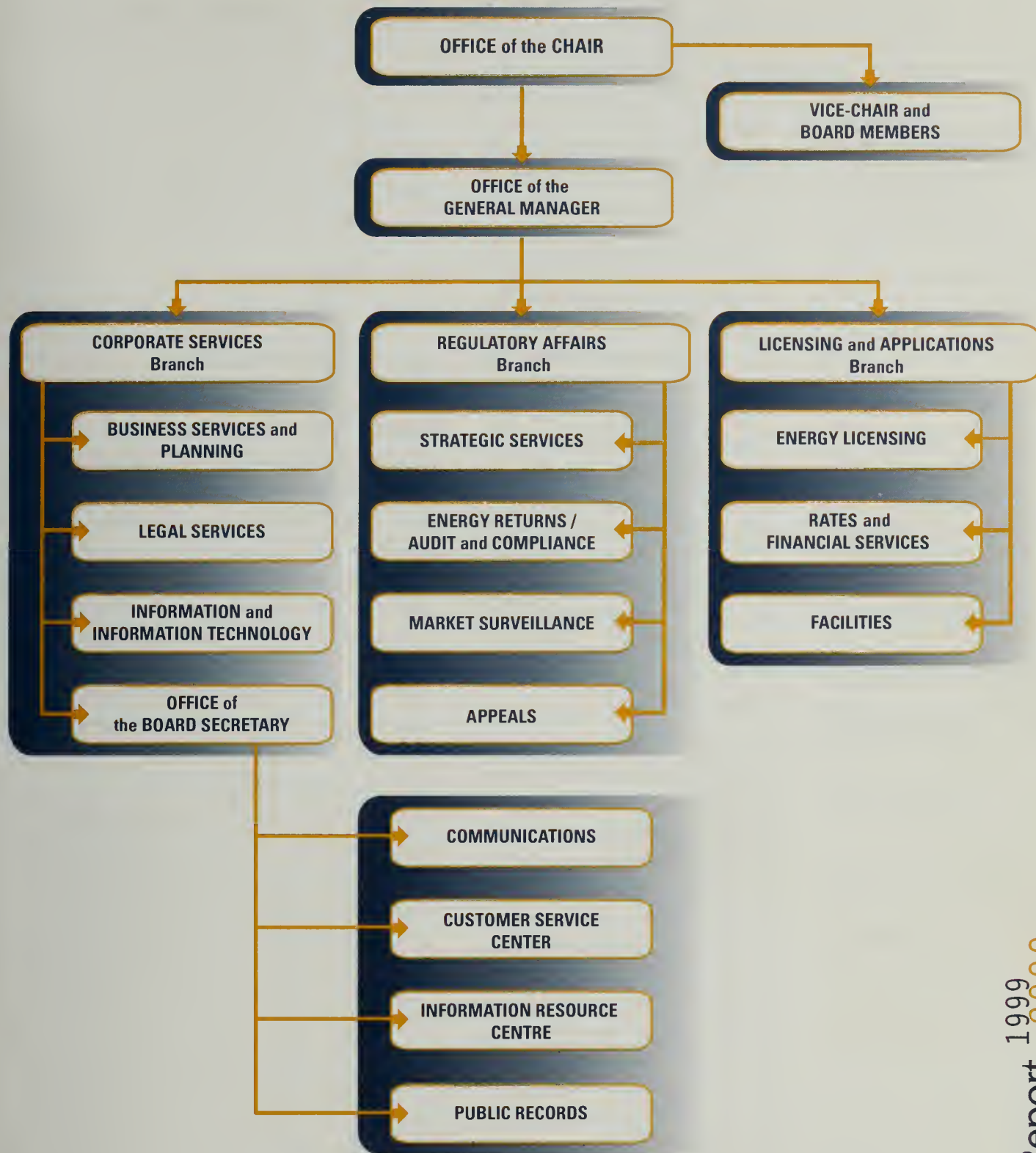
responsibilities.

The Information Technology and Operations section manages and delivers office automation and technology-related services, including security, telecommunications support and the development and maintenance of computer systems.

The Legal Services section provides legal advice to the Board's members and staff on all aspects of the OEB's responsibilities – including hearings, acquisitions and amalgamations, licensing, rule-making and cost assessment. Legal Services also provides advice on appeals and judicial reviews, and interpretive services on issues relating to legislation, contracts and conflict of interest. In addition, the section represents the Board and the Director of Licensing as counsel during hearings.

The Board Secretary's Office performs all of the OEB's registrar and communications functions. Those functions include making the logistical arrangements for public hearings, maintaining the public record of hearings and issuing the Board's regulatory documents. The group also provides case administration services to assist hearing panels and the Board's regulatory staff.

The Board Secretary's Office also provides a variety of communications functions, and has operational responsibility for the Board's Web site, media relations, the Customer Service Centre, the Information Resource Centre and the Public File Room.



THE YEAR IN REVIEW: OPERATIONAL HIGHLIGHTS OF FISCAL 1999-2000

The OEB was given significant new responsibilities as the provincial regulator of the monopoly parts of the electricity industry.

Preparing for the New Energy Environment

Ontario's *Energy Competition Act, 1998* (the ECA), received the approval of the Legislative Assembly in November 1998. The legislation introduced major changes to Ontario's energy industry, and continued the process of natural gas deregulation, which began in 1985. Perhaps most importantly, the ECA provided for the creation of a deregulated electricity supply market – and set out the province's ultimate goal of an open, competitive market in both electricity and natural gas.

The ECA – which contains both the *Ontario Energy Board Act, 1998* (the *OEB Act*) and the *Electricity Act, 1998* – significantly redefined the Ontario Energy Board's roles, responsibilities and mandate. While most of the Board's previous responsibilities as a regulator of Ontario's natural gas industry were retained in the legislation, the OEB was given significant new responsibilities as the provincial regulator of the monopoly parts of the electricity industry. In addition to giving the OEB regulatory oversight of Ontario

Hydro's successor companies, the expanded legislative mandate includes regulatory responsibility for licensing and rate-setting, as well as monitoring Ontario's more than 250 municipal electrical utilities.

New OEB Committee Structure

To prepare for its new, expanded role, the Board launched a major strategic planning initiative during the 1999-2000 fiscal year. Four technical working committees were created, each comprised of Board members and staff. The working committees were created to deal with the responsibility areas of facilities, rates and licensing, as well as the area of mergers, acquisitions, amalgamations and divestment. Each working committee is responsible for bringing forward recommendations on policy and processes in its area for the full Board's consideration.

The Board members on the four working committees also form a standing panel that can make decisions on applications that do not require a hearing, or applications that have been processed in a written hearing. The standing panel can refer any matter to the full Board, or recommend that a full oral public hearing be held.

Pursuing Operational Efficiency

The Board continues to work closely with Ontario's energy industry to pursue more efficient and cost-effective approaches to achieving its goals. Such approaches include the use of written hearings wherever possible, extensive consultation and the efficient application of information technology.

Adopting innovative approaches to regulation – including Performance Based Regulation (PBR) – represents an important part of the Board's expanded mandate under the *Energy Competition Act*. This responsibility recognizes that a competitive energy market demands a more responsive and flexible regulatory framework, and incentives for participants to reduce costs and respond efficiently to market forces.

The Board is also responsible for regulating the activities of more than 250 municipal electrical utilities in Ontario. This is a highly diverse group of organizations, whose customer bases range from as few as 200 people to more than two million.

In response to the diverse nature of Ontario's municipal electrical utilities, the Board examined and endorsed the concept of PBR, which is designed to allow for greater flexibility in pricing and offer more substantial rewards for performance, without sacrificing either customer satisfaction, service or reliability.

The Board's consultative efforts on the PBR initiative during 1999-2000 resulted in a number of task force reports, which were used by the Board's staff to prepare a draft Rate Handbook. Regional seminars on the draft handbook were held, and the Board held a proceeding in the fall of 1999.

In January 2000, the Board issued its Decision with Reasons. The Electricity Distribution Rate Handbook, including a Rate Unbundling Design Model, was finalized in March 2000. Board staff then conducted several information and education sessions on the Rate Handbook for utility staff across Ontario.

After consultation with the province's electricity distribution utilities during the year, the Board released the Accounting Procedures Handbook, which includes the Uniform System of Accounts (USoA). Board staff subsequently held several information and education sessions on the handbook across the province.

Other projects initiated during the year included the development of a rate unbundling and design model for use by the municipal electric utilities in preparing their rate applications, and the development of processes, criteria and filing requirements for audit reviews, investigations, compliance monitoring and appeals.

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consumer protection
and education mandate
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natural gas.**

Task Forces Prove Effective

In the interest of adopting the most efficient and cost-effective approaches to regulation, the Board worked closely during the 1999-2000 fiscal year with many representatives of the provincial energy industry. The industry's involvement and experience served as valuable resources for the Board, while promoting a co-operative, consultative decision-making process in the development of Ontario's new regulatory framework.

During the year, the Board set up a number of task forces with representation from a wide range of industry stakeholders. The task forces helped the Board to examine its options in the development of new regulations for licensing and rate-setting in the electricity sector.

As well, the members of the various task forces made a significant contribution to developing the Standard Supply Service (SSS) Code, the Retail Settlement Code (RSC), the Distribution System Code (DSC), the Transmission System Code (TSC), the Rate Handbook, and the Accounting Procedures Handbook (APH).

Task force recommendations formed the basis for the draft

Transmission System Code and the draft Distribution System Code, both of which were expected to be finalized early in the coming fiscal year. A task force to develop recommendations for the Gas Distributors Access Rule was created in January 2000, and its final recommendations are also expected early in 2000-2001.

Communications and Customer Service

Effective communications and high-quality customer service from the OEB are vital as Ontario's electricity market moves toward the opening of competition. The Board recognizes the need for open, timely communications to energy consumers who need to understand the implications of energy restructuring, and to the regulated participants of the energy market, who need information on how to prepare for the opening of the competitive electricity market.

The Board's staff and representatives from various energy stakeholders participate in the regular meetings of the Ministry of Energy, Science and Technology's Consumer Education Sub-committee. The sub-committee is responsible for developing and implementing a consumer education program that provides information on the deregulation of the electricity industry, and the options that are available to consumers in Ontario's new energy marketplace.

On March 20, 2000, the OEB opened its new Customer Service Centre, which was created to help the Board carry out its expanded consumer protection and education mandate in electricity and natural gas. The centre is staffed with a co-ordinator and four customer service representatives, who provide energy-related information in both official languages to the general public.

The Customer Service Centre offers several fact sheets on the province's natural gas and electricity industries. It also deals with complaints and disputes between consumers and natural gas marketers or electricity retailers. The centre can be reached by phone Monday to Friday, between 8:30 a.m. and 5:00 p.m., by calling 1-877-632-2727 (toll-free) or, in the Toronto area, by calling (416) 314-2455.

During 1999-2000, the Board continued to expand its Web site, which provides on-line access to news releases, speeches, applications, Board decisions and orders, statutory notices, transcripts and other regulatory documents and publications. The site's importance was demonstrated during the year by the high volume of visitors it received, and this prompted the Board to undertake a redesign of the site in early 2000.

The redesigned site – which is expected to be launched early in the coming fiscal year – will provide visitors with faster, more user-friendly access, and more efficient ways to retrieve information.

Electronic Regulatory Filing

Significant progress was also made during 1999-2000 on the Board's Electronic Regulatory Filing (ERF) initiative. After several years of study and preparation, major development contracts were signed to begin the construction of a system that will allow regulatory documents to be filed with the Board electronically as its Official Record. The new system, which will use standard data and security techniques to meet archival and evidentiary requirements, is expected to be operational in late 2000.

The Board began a variety of other systems projects during the last fiscal year. These projects

included internal process support systems – such as Inquiry Tracking and Case Management, enhanced public information access systems, and systems to support regulatory processes.

Outreach Activities

Each year, one of the important ways the Board provides information to stakeholders is by taking advantage of as many speaking opportunities as possible. During the 1999-2000 fiscal year, the OEB's Chair, members and staff took part in a number of public forums – including the annual conference of the Municipal Electric Association, the Independent Power Producers' Society of Ontario, the Association of Major Power Consumers in Ontario, the Ontario Natural Gas Association and other conferences organized by the Institute for International Research, and the Canadian Association of Members of Public Utility Tribunals (CAMPUT).

The Board's members and staff also participated actively in a number of professional organizations, including CAMPUT, the National Association of Regulatory Utility Commissioners (NARUC), the International Association of Business Communicators, the Canadian Association of Certified

The Web site's importance was demonstrated during the year by the high volume of visitors it received.

The Board has the discretion to find that an intervenor is eligible for a cost award in a particular proceeding.

Management Consultants, the Canadian Institute of Chartered Accountants, and the Council of Canadian Administrative Tribunals.

During the year, the Board held some 30 workshops across the province to provide information and educate its stakeholder community. The workshop topics included licensing, codes, Performance Based Regulation (PBR) and the Accounting Procedures Handbook.

Intervenors and Cost Awards

The OEB's activities can affect a wide variety of public and special interest groups, which means that the Board's proceedings often attract a wide range of intervenors. During 1999-2000, consumer groups, industrial associations, environmental groups, public institutions and landowners

were among the dozens of the parties that took part in OEB proceedings.

Like some other tribunals, the OEB has authority to award costs at the end of a proceeding. Under the Board's Cost Eligibility Guideline, intervenors in an OEB proceeding are eligible for a cost award if they primarily represent:

- the direct interests of consumers in relation to regulated services;
- a public interest that is relevant to the Board's mandate; or
- a significant grouping of interests that are relevant to the Board's mandate.

The Board also has the discretion to find that an intervenor is eligible for a cost award in a particular proceeding. During 1999-2000, the Board was in the process of reviewing the criteria used to determine eligibility for cost awards, as well as the amount of the awards. New guidelines and tariffs are expected to be issued early in the coming fiscal year.

The intervenor costs awarded by the Board during fiscal 1999-2000 are summarized in the following table.

Intervenor Cost Awards 1999-2000*

Case Type	Number of Proceedings	Number of Cost Orders	Amount Awarded (\$)
Gas Rates	6	55	2,202,473.65
Facilities	1	1	33,573.71
Totals	7	56	2,236,047.36

* Refers to fiscal year in which cost award was issued. Hearings occurring in one fiscal year may not have cost awards issued until a subsequent fiscal year.

FINANCIAL REPORT FOR

APRIL 1, 1999 TO MARCH 31, 2000

The Ontario Energy Board is classified as a Regulatory Agency, and is funded out of the government's Consolidated Revenue Fund. The Board is subject to all the financial and administrative policies established by the Government of Ontario, through the Management Board of Cabinet and the Minister of Finance. The Board is a full cost recovery agency. All monies collected on behalf of the Board are paid into the Consolidated Revenue Fund.

The Board submits its annual budget to the Ministry of Energy, Science and Technology for incorporation into the ministry's estimates, which are presented to the Management Board and subsequently to the provincial legislature for approval. A table summarizing the Board's financial data for the fiscal year 1999-2000 is shown below.

Recovering Board Costs

The Board has been a 100 percent cost recovery agency since April 1, 1992. In the past, the Board fully recovered its costs by assessing them against applicants – usually the natural gas utilities and Ontario Hydro – that were involved in Board hearings and related activities. After each hearing, the Board simply invoiced the applicant concerned. The amount of the invoice included the Board's direct expenses for the hearing, as well as a contribution towards the Board's fixed costs, such as general overheads and payroll.

OEB Spending Analysis 1999-2000

Standard Account	Printed Estimates (1)	Actual Expenditures
Salaries and Wages	4,820,100	3,852,327
Employee Benefits	835,100	698,640
Transportation and Communication	369,100	340,758
Services	5,896,100	7,214,661
Supplies & Equipment	799,500	471,192
Total	12,719,900	12,577,578

(1) Approved budget as of April 1, 1999

The Act empowers the Board to make an annual assessment of all the fixed costs and expenses it incurs in carrying out its duties.

However, a significant change to the Board's traditional cost assessment procedures was required during the 1999-2000 fiscal year. The change was needed to recognize the Board's expanded responsibilities under the *Ontario Energy Board Act*, and to recognize the approval by the LGIC on November 17, 1999 of a regulation made under the ECA that deals specifically with the assessments of Board expenses and expenditures in the years 1999, 2000 and 2001.

The *OEB Act* now provides for recovery of the Board's costs in three ways. First, the Act gives the Board the authority to set and charge fees, such as licence fees, application fees and other fees. Second, the Act empowers the Board to make an annual assessment of all the fixed

costs and expenses it incurs in carrying out its duties. Third, it gives the Board the ability to recover out-of-pocket or variable costs that are incurred directly by the Board and associated with the conduct of its proceedings.

In these ways, the Board is able to recover the full cost of its operations every year from the natural gas and electricity industries it regulates.

Currently, most of the Board's operating costs are to be recovered through an annual cost assessment process, and the regulation mentioned in the previous paragraph establishes the formula to be used in determining such expenditures. Among other things, the regulation identifies the various classes of persons who are liable to pay the assessment, prescribes the manner in which the assessment is to be made, and provides for a "true-up" mechanism.

The Board implemented its initial cost assessment in mid-December of 1999, by issuing more than 250 invoices totaling \$11.8 million to a wide variety of natural gas and electricity utilities throughout Ontario.

OEB Cost Recovery Analysis 1999-2000

Account	Actual Non-tax Revenue	
Cost Assessment	11,769,120	(1)
Hearing Costs	74,206	(1)
Application Filing Fees	20,725	(1)
Miscellaneous	2,118	(1)
Prior Year Recoveries	975,370	(2)
TOTAL:	12,841,539	(3)

(1) As reported on the cash method

(2) Prepayment of Electronic Regulatory Filing Costs for fiscal 1998-1999

(3) As compared to budgeted amount of \$12,719,900 as of April 1, 1999

BOARD DECISIONS AND ORDERS

During the 1999-2000 fiscal year, the Board issued seven written decisions and 495 orders, which are summarized in the table below.

Ontario Energy Board Regulatory Activities Fiscal 1999-2000

Application Type	Decisions Issued	Orders Issued
Franchise		72
Certificates		12
Facilities	2	11
Rates	2	18
Other Matters	3	7
Licences Issued		375
Distribution		263
Transmission		2
Gas Marketer		19
Generation		84
Electricity Retailer		7
Activity Totals	7	495

KEY BOARD CONTACTS

Chair	Floyd Laughren
Vice-Chair	George Dominy
Board Solicitor	Steve McCann
General Manager	Jay Young
Director of Corporate Services	Bob Cappadocia
Board Secretary	Paul Pudge
Manager, Business Services and Planning	Ansar Ahmed
Team Leader, IT and Operations	Charles Mathis
Director of Licensing	Anne Powell
Manager, Energy Licensing	Brian Hewson
Manager, Facilities	Neil McKay
Manager, Rates/Financial Services	Mark Garner
Director of Regulatory Affairs	Betsy Mills
Team Leader, Audit/Investigations	Randy Pugh
Team Leader, Strategic Services	Mike McLeod

Board personnel can be reached by contacting the Board's receptionist at
1-888-632-6273 (Toll Free) or (416) 481-1967.

